MR. EGE: Thank you very much, Mr. Chairman. My name is Karl Ege. I'm general counsel of the Frank Russell Company. We are an investment, management and advisory firm operating around the globe from our headquarters in Tacoma, Washington. I have prepared some extensive remarks that I will summarize for you.

We've been in business for 63 years. We've been a global firm since 1979. We opened the London office then, and today we have a thriving London office. We also provide our services from offices in Toronto, Paris, Amsterdam, Tokyo, Sydney, Singapore and Auckland. We manage in excess of $55 billion for investors in six funds complexes domiciled around the world, and are strategic advisors to more than $1 trillion of assets, principally pension funds, and these are among the largest institutional investors in the world.

About four years ago, almost five years ago, I spoke with a group of state legislators here in Washington about trade-in services and called it the export tiger, something that's often overlooked in the debate about trade. At that time I don't think anyone publicly here had really focused on that aspect of the U.S. trade picture and its importance to our economy. And at that time there appeared to be very little evidence, at least tangible evidence that the other Washington was also focusing on the importance of services and the export of services.

When I spoke in 1995 we did have a fairly healthy trade surplus in services. I think the 1993 data which I had at that time showed a surplus of about $57 billion. Today that surplus has grown to $82.6 billion, which offset in part the significant trade deficit we had in goods.

The bulk of this $82.6 billion trade surplus is generated by two sectors alone, royalties and license fees, that's computer royalties, license fees, as well as the entertainment industry and other copyright royalties for intellectual property produced in the United States and sold abroad, and other private services, a catch-all phrase that just happens to represent a $44.5 billion surplus in the last figures released, which were 1998.

Now let's take a look at this sector. Other private services are extremely important. Much is made about the export of agricultural products in the United States. Yet the export of other professional services in 1998, which is over $92 billion, was more than double the export of all "foods, fruits and beverages from the United States." The entire agricultural food sector had exports of only $41 billion. And the surplus in this catchall services sector of almost $45 billion was three and a half time the trade surplus in agricultural food and beverage items.

So it is an important part of our economy, one that we just can't overlook. Other private services include things as diverse as the tuition paid by foreign students who study in the United States, financial services offered to the global marketplace by our investment banks and insurance companies, legal, accounting, consulting service, engineering and environmental services, architecture, advertising, design, and all of the other professional services that are resident here in the United States.

We've seen recent initiatives by American financial firms to try to attack the foreign markets, yet they've been hampered in many respects by virtue of limitations here at home. The passage last Friday of Gramm Leach Bliley, the long awaited final repeal of Glass Stegal will give our financial institutions more power to at least try to compete on an equal footing with our competitors abroad.

They recently signed a new trade agreement with China had a particular emphasis on the U.S. entertainment, financial services and communications firms, areas where we have a significant trade surplus where we can generate additional jobs and keep intellectual capital here in the United States as that market opens up to the service sectors.

Yet I want to highlight a few areas where we find obstacles as we move into the foreign markets. And I want to highlight something that can be fixed here in the United States and then a couple of things that we encounter overseas.

First, the United States tax laws contain some provisions that make it very difficult for investment firms and mutual funds to address foreign markets. There is a law that dates back to the original Internal Revenue Code, 1913, that imposes a withholding tax of up to 30 percent on all distributions of short term trading gains or portfolio interest from U.S. mutual funds to non-U.S. investors.

U.S. citizens aren't subject to this withholding tax, yet foreign investors are. And there's an extremely lengthy and complex rebate reclaim procedure that one can use. It takes up to two years to get a reclaim back. So what happens is foreigners just say, "Forget it. We're not going to invest in U.S. mutual funds." What do U.S. fund companies do?

We are not going to be denied the foreign markets. We set up affiliates overseas to provide investment vehicles in those foreign markets because we are required to have local content in order to avail ourselves of those jurisdictions, whether it's in Japan or in Luxembourg, Dublin and other places where funds are located. We create jobs in those countries. These are 21st century high-paying service jobs. Those jobs are denied U.S. workers, but instead are going overseas.

We don't think this provision that still sits in the books generates a lot of revenue for the treasury since no one invests in U.S. mutual funds, yet it's there and it remains.

We have local content requirements that we find when we go overseas. A U.S. firm that wishes to offer services in a foreign country will often be required to employ a specific number of local individuals in order to gain access to that market place. That means that often we hire local individuals disproportionate to the value that's needed, mainly because we have to have a local voice to take the intellectual content from the United States and send it out to the local market. Jobs are created abroad rather than the United States.

Further, and very importantly, this practice results in essentially a technology transfer of U.S. expertise to other countries. There are other situations. For example, in the United States and

Britain, large institutional investors, like pension funds, are free to invest in the global markets, free from any government allocation requirements.

We basically invest in a prudent manner, without regard to national boundaries. However, in foreign countries that's not the case. Often there are mandatory asset allocations that require a significant portion of assets to be invested in that home country market. In a sense it bolsters the domestic market and amounts to a de facto government subsidy of both the local financial institutions and the companies that are there, traded there.

To my knowledge, there's been no study of these de facto asset allocation requirements, these de facto subsidies, of what kind of impact they have on the free flow of capital to what would otherwise be its highest and best use.

These are just examples of a potential focus which the USTR and other agencies of government, Congress and others should look at. They would have a two-fold impact.

First, it would continue the continual increase of the substantial trade surplus in the services sector. Second, it would enable the workforce in the United States to reap the full benefit of the intellectual capital that it creates, increasing jobs for workers in the service sector as well as avoiding an unnecessary transfer of the product of American intellectual effort.

I thank you for the opportunity to present these views to you.